

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

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Arizona Public Service Company
PO Box 53999
Station 9905
Phoenix, AZ 85072

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APR 15 2008

AZ CORPORATION COMMISSION
DIRECTOR OF UTILITIES

ANNUAL REPORT

FOR YEAR ENDING

12	31	2007
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FOR COMMISSION USE

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PROCESSED BY:

Ar 1608

SCANNED

COMPANY INFORMATION

Company Name (Business Name) <u>Arizona Public Service Company</u>		
Mailing Address <u>P O Box 53999</u>		
<u>Phoenix</u>	<u>AZ</u>	<u>85072-3999</u>
(City)	(State)	(Zip)
<u>602-250-1000</u>	<u>602-250-3003</u>	<u>N/A</u>
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)
Email Address _____		
Local Office Mailing Address <u>SAME AS ABOVE</u>		
(Street)		
_____	_____	_____
(City)	(State)	(Zip)
<u>Local Office Telephone No. (Include Area Code)</u>	<u>Fax No. (Include Area Code)</u>	<u>Cell No. (Include Area Code)</u>
Email Address _____		

MANAGEMENT INFORMATION

Management Contact: <u>Barbara Klemstine</u>		<u>Director, Regulation and Pricing Administration</u>	
	(Name)		(Title)
<u>400 North 5th Street MS 9708</u>	<u>Phoenix</u>	<u>AZ</u>	<u>85004</u>
(Street)	(City)	(State)	(Zip)
<u>602-250-4563</u>	<u>602-250-3003</u>	<u>N/A</u>	
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address <u>Barbara.Klemstine@aps.com</u>			
On Site Manager: _____			
(Name)			
_____	_____	_____	_____
(Street)	(City)	(State)	(Zip)
<u>Telephone No. (Include Area Code)</u>	<u>Fax No. (Include Area Code)</u>	<u>Cell No. (Include Area Code)</u>	
Email Address _____			

☐ Please mark this box if the above address(es) have changed or are updated since the last filing.

Statutory Agent: CT Corporation

(Name)

3225 North Central Avenue

(Street)

Phoenix

(City)

AZ

(State)

85012

(Zip)

602-250-3252

Telephone No. (Include Area Code)

N/A

Fax No. (Include Area Code)

N/A

Cell No. (Include Area Code)

Attorney: Nancy C. Loftin, Senior Vice President, General Counsel & Secretary

(Name)

400 North 5th Street MS 9068

(Street)

Phoenix

(City)

AZ

(State)

85004

(Zip)

602-250-3252

Telephone No. (Include Area Code)

N/A

Fax No. (Include Area Code)

N/A

Cell No. (Include Area Code)

Email Address NANCY.LOFTIN@PINNACLEWEST.COM

☒ Please mark this box if the above address(es) have changed or are updated since the last filing.

OWNERSHIP INFORMATION

Check the following box that applies to your company:

☐ Sole Proprietor (S)

☒ C Corporation (C) (Other than Association/Co-op)

☐ Partnership (P)

☐ Subchapter S Corporation (Z)

☐ Bankruptcy (B)

☐ Association/Co-op (A)

☐ Receivership (R)

☐ Limited Liability Company

☐ Other (Describe) _____

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

☒ APACHE

☒ COCHISE

☒ COCONINO

☒ GILA

☐ GRAHAM

☐ GREENLEE

☒ LA PAZ

☒ MARICOPA

☐ MOHAVE

☒ NAVAJO

☒ PIMA

☒ PINAL

☐ SANTA CRUZ

☒ YAVAPAI

☒ YUMA

☐ STATEWIDE

SERVICES AUTHORIZED TO PROVIDE

Check the following box/es for the services that you are authorized to provide:

☒ **Electric**

- ☒ Investor Owned Electric
- ☐ Rural Electric Cooperative
- ☐ Utility Distribution Company
- ☐ Electric Service Provider
 - ☐ Transmission Service Provider
 - ☐ Meter Service Provider
 - ☐ Meter Reading Service Provider
 - ☐ Billing and Collection
 - ☐ Ancillary Services
 - ☐ Generation Provider
 - ☐ Aggregator/Broker

☐ **Telecommunications**

- ☐ Incumbent Local Exchange Carrier
- ☐ Interexchange Carrier
- ☐ Competitive Local Exchange Carrier
- ☐ Reseller
- ☐ Alternative Operator Service Provider

☐ **Gas**

- ☐ Natural Gas
- ☐ Propane

☐ **Other** (Specify) _____

STATISTICAL INFORMATION

TELECOMMUNICATION UTILITIES ONLY

Total residence local exchange access lines	_____
Total business local exchange access lines	_____
Total revenue from Arizona operations	\$ _____
Total income from Arizona operations	\$ _____
Value of assets used to serve Arizona customers	\$ _____
Accumulated depreciation associated with those assets	\$ _____

STATISTICAL INFORMATION (CONT'D)

ELECTRIC UTILITY PROVIDERS ONLY

Total number of customers	1,101,491	
Residential	979,138	
Commercial	117,292	
Industrial	3,612	
Public street and highway lighting	1,069	
Irrigation	326	
Resale	54	
 Total kilowatt-hours sold	33,759,461,000	kWh
Residential	13,771,481,000	
Commercial	12,850,891,000	
Industrial	2,396,079,000	
Public street and highway lighting	126,817,000	
Irrigation	26,053,000	
Resale	4,588,140,000	
 Maximum Peak Load	7,545.10	MW

GAS UTILITIES ONLY

Total number of customers		
Residential		
Commercial		
Industrial		
Irrigation		
Resale		
 Total therms sold		therms
Residential		
Commercial		
Industrial		
Irrigation		
Resale		

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APR 15 2008

AZ CORP COMM
Director Utilities

VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only

VERIFICATION

STATE OF Arizona

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME)
<u>Maricopa</u>
NAME (OWNER OR OFFICIAL) TITLE
<u>Chris N. Froggatt, Vice President & Controller</u>
COMPANY NAME
<u>Arizona Public Service Company</u>

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2007

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2007 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)

\$ 3,060,868,824.00

(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 268,660,414.00
IN SALES TAXES BILLED, OR COLLECTED)

**REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)

Chris Froggatt
SIGNATURE OF OWNER OR OFFICIAL
602/250-3212
TELEPHONE NUMBER

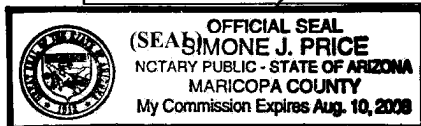
SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

9th

DAY OF



COUNTY NAME
<u>Maricopa</u>
MONTH
<u>April</u>
YEAR
<u>2008</u>

Simone J. Price
SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES August 10, 2008

**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
INTRASTATE REVENUES ONLY**

RECEIVED

APR 15 2008

AZ CORP COMM
Director Utilities

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME) Maricopa	
NAME (OWNER OR OFFICIAL) Chris N. Froggatt	TITLE VP & Controller
COMPANY NAME Arizona Public Service Company	

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2007

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2007 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES

\$ 1,555,720,472.00

(THE AMOUNT IN BOX AT LEFT

INCLUDES \$ 137,405,227.00

IN SALES TAXES BILLED, OR COLLECTED

*RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.

X Chris Froggatt
SIGNATURE OF OWNER OR OFFICIAL
602-250-3212
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

9th

DAY OF

(SEAL)

MY COMMISSION EXPIRES



OFFICIAL SEAL
SIMONE J. PRICE
NOTARY PUBLIC - STATE OF ARIZONA
MARICOPA COUNTY
My Commission Expires Aug 10, 2008

NOTARY PUBLIC NAME <u>Simone J. Price</u>	
COUNTY NAME <u>Maricopa</u>	
MONTH <u>April</u>	YEAR <u>2008</u>

X Simone J. Price
SIGNATURE OF NOTARY PUBLIC

FINANCIAL INFORMATION

Attach to this annual report a copy of the companies' year-end (Calendar Year 2007) financial statements. If you do not compile these reports, the Utilities Division will supply you with blank financial statements for completion and filing. **ALL INFORMATION MUST BE ARIZONA-SPECIFIC AND REFLECT OPERATING RESULTS IN ARIZONA.**

ARIZONA PUBLIC SERVICE COMPANY
STATEMENTS OF INCOME
(dollars in thousands)

	Year Ended December 31,		
	2007	2006	2005
Electric Operating Revenues	\$ 2,936,277	\$ 2,658,513	\$ 2,270,793
Operating Expenses:			
Fuel and purchased power	1,151,392	969,767	688,982
Operations and maintenance	710,077	665,631	591,941
Depreciation and amortization	365,430	353,057	325,174
Income taxes (Notes 4 and S-1)	155,735	144,127	157,273
Other taxes	127,648	127,989	125,810
Total	<u>2,510,282</u>	<u>2,260,571</u>	<u>1,889,180</u>
Operating Income	<u>425,995</u>	<u>397,942</u>	<u>381,613</u>
Other Income (Deductions):			
Regulatory disallowance (Note 3)	--	--	(138,562)
Income taxes (Notes 4 and S-1)	4,578	5,200	59,263
Allowance for equity funds used during construction	21,195	14,312	11,191
Other income (Note S-4)	16,727	31,902	22,141
Other expense (Note S-4)	(21,630)	(23,830)	(23,204)
Total	<u>20,870</u>	<u>27,584</u>	<u>(69,171)</u>
Interest Deductions:			
Interest on long-term debt	161,030	149,240	138,476
Interest on short-term borrowings	9,564	9,529	7,026
Debt discount, premium and expense	4,639	4,363	4,085
Allowance for borrowed funds used during construction	(12,308)	(7,336)	(7,624)
Total	<u>162,925</u>	<u>155,796</u>	<u>141,963</u>
Net Income	<u>\$ 283,940</u>	<u>\$ 269,730</u>	<u>\$ 170,479</u>

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
BALANCE SHEETS
(dollars in thousands)

	December 31,	
	2007	2006
ASSETS		
Utility Plant (Notes 1, 6, 9 and 10)		
Electric plant in service and held for future use	\$ 11,582,862	\$ 11,094,868
Less accumulated depreciation and amortization	3,994,777	3,789,534
Net	7,588,085	7,305,334
Construction work in progress	622,693	365,704
Intangible assets, net of accumulated amortization of \$250,268 and \$217,099	105,225	95,601
Nuclear fuel, net of accumulated amortization of \$68,375 and \$50,741	69,271	60,100
Total utility plant	8,385,274	7,826,739
Investments and Other Assets		
Decommissioning trust accounts (Note 12)	379,347	343,771
Assets from risk management and trading activities (Note S-3)	82,588	96,892
Other assets	69,570	67,763
Total investments and other assets	531,505	508,426
Current Assets:		
Cash and cash equivalents	52,151	81,870
Investment in debt securities	--	32,700
Customer and other receivables	402,244	410,436
Allowance for doubtful accounts	(4,265)	(4,223)
Materials and supplies (at average cost)	149,759	125,802
Fossil fuel (at average cost)	27,792	21,973
Assets from risk management and trading activities (Note S-3)	73,854	539,308
Deferred income taxes (Notes 4 and S-1)	38,707	19,220
Other	17,296	13,367
Total current assets	757,538	1,240,453
Deferred Debits:		
Deferred fuel and purchased power regulatory asset (Notes 1, 3, 4 and S-1)	110,928	160,268
Other regulatory assets (Notes 1, 3, 4 and S-1)	514,353	686,016
Unamortized debt issue costs	24,373	26,393
Other	78,934	65,397
Total deferred debits	728,588	938,074
Total Assets	\$ 10,402,905	\$ 10,513,692

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
BALANCE SHEETS
(dollars in thousands)

	December 31,	
	2007	2006
LIABILITIES AND EQUITY		
Capitalization:		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital (Note 3)	2,105,466	2,065,918
Retained earnings	1,076,557	960,405
Accumulated other comprehensive income (loss):		
Pension and other postretirement benefits (Note 8)	(21,782)	--
Derivative instruments	13,038	2,988
Common stock equity	3,351,441	3,207,473
Long-term debt less current maturities (Note 6)	2,876,881	2,877,502
Total capitalization	<u>6,228,322</u>	<u>6,084,975</u>
Current Liabilities:		
Short-term debt	218,000	--
Current maturities of long-term debt (Note 6)	978	968
Accounts payable	239,923	223,417
Accrued taxes	374,444	381,444
Accrued interest	38,262	45,254
Customer deposits	71,376	61,900
Liabilities from risk management and trading activities (Note S-3)	60,439	490,855
Other	92,802	74,728
Total current liabilities	<u>1,096,224</u>	<u>1,278,566</u>
Deferred Credits and Other:		
Deferred income taxes (Notes 4 and S-1)	1,250,028	1,215,862
Regulatory liabilities (Notes 1, 3, 4, and S-1)	642,564	635,431
Liability for asset retirements (Note 12)	281,903	268,389
Pension and other postretirement liabilities (Note 8)	469,945	551,531
Customer advances for construction	94,801	71,211
Unamortized gain - sale of utility plant (Note 9)	36,606	41,182
Liabilities from risk management and trading activities (Note S-3)	45,558	135,056
Other	256,954	231,489
Total deferred credits and other	<u>3,078,359</u>	<u>3,150,151</u>
Commitments and Contingencies (See Notes)		
Total Liabilities and Equity	<u>\$ 10,402,905</u>	<u>\$ 10,513,692</u>

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2007	2006	2005
Cash Flows from Operating Activities:			
Net income	\$ 283,940	\$ 269,730	\$ 170,479
Adjustments to reconcile net income to net cash provided by operating activities:			
Regulatory disallowance	--	--	138,562
Depreciation and amortization including nuclear fuel	395,890	381,173	353,082
Deferred fuel and purchased power	(196,136)	(252,849)	(172,756)
Deferred fuel and purchased power amortization	231,106	265,337	--
Deferred fuel and purchased power disallowance	14,370	--	--
Allowance for equity funds used during construction	(21,195)	(14,312)	(11,191)
Deferred income taxes	(44,478)	(305)	9,659
Change in derivative mark-to-market valuations	(6,758)	6,893	3,492
Changes in current assets and liabilities:			
Customer and other receivables	23,882	20,970	(56,152)
Materials, supplies and fossil fuel	(29,776)	(14,381)	(12,268)
Other current assets	(8,056)	3,666	(2,592)
Accounts payable	(2,797)	5,825	(12,372)
Accrued taxes	13,802	23,678	67,454
Collateral	509	(175,799)	169,080
Other current liabilities	20,231	45,125	(37,781)
Change in risk management and trading – liabilities	(2,009)	(121,833)	115,495
Change in risk management and trading – assets	40,376	(74,208)	15,449
Changes in unrecognized tax benefits	27,773	--	--
Change in other long-term assets	(23,577)	2,828	(24,752)
Change in other long-term liabilities	48,718	22,175	9,002
Net cash flow provided by operating activities	765,815	393,713	721,890
Cash Flows from Investing Activities:			
Capital expenditures	(882,357)	(648,743)	(609,857)
Transfer of PWEC Dedicated Assets to APS	--	--	(500,000)
Purchase of Sundance Plant	--	--	(185,046)
Allowance for borrowed funds used during construction	(12,308)	(7,336)	(7,624)
Purchases of investment securities	(36,525)	(1,291,903)	(1,476,623)
Proceeds from sale of investment securities	69,225	1,259,203	1,657,798
Proceeds from nuclear decommissioning trust sales	259,026	254,651	186,215
Investment in nuclear decommissioning trust	(279,768)	(275,393)	(204,633)
Repayment of loan by Pinnacle West Energy	--	--	500,000
Other	1,211	(4,470)	(5,372)
Net cash flow used for investing activities	(881,496)	(713,991)	(645,142)
Cash Flows from Financing Activities:			
Issuance of long-term debt	--	395,481	411,787
Short-term borrowings – net	218,000	--	--
Equity infusion	39,548	212,820	250,000
Dividends paid on common stock	(170,000)	(170,000)	(170,000)
Repayment and reacquisition of long-term debt	(1,586)	(86,086)	(568,177)
Net cash flow (used for) provided by financing activities	85,962	352,215	(76,390)
Net (decrease) increase in cash and cash equivalents	(29,719)	31,937	358
Cash and cash equivalents at beginning of year	81,870	49,933	49,575
Cash and cash equivalents at end of year	\$ 52,151	\$ 81,870	\$ 49,933
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes, net of refunds	\$ 186,183	\$ 117,831	\$ 34,252
Interest, net of amounts capitalized	\$ 165,279	\$ 131,183	\$ 146,207

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
STATEMENTS OF CHANGES IN COMMON STOCK EQUITY
(dollars in thousands)

	Year Ended December 31,		
	2007	2006	2005
COMMON STOCK	\$ 178,162	\$ 178,162	\$ 178,162
ADDITIONAL PAID-IN CAPITAL	2,105,466	2,065,918	1,853,098
RETAINED EARNINGS			
Balance at beginning of year	960,405	860,675	860,196
Net income	283,940	269,730	170,479
Common stock dividends	(170,000)	(170,000)	(170,000)
Cumulative effect of change in accounting for income taxes (Note S-1)	2,212	--	--
Balance at end of year	1,076,557	960,405	860,675
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of year	2,988	93,290	(52,760)
Pension and other postretirement benefits (Note 8):			
Unrealized actuarial loss, net of tax benefit of (\$15,126)	(23,304)	--	--
Prior service cost, net of tax benefit of (\$463)	(713)	--	--
Amortization to income:			
Actuarial loss, net of tax expense of \$1,238	1,908	--	--
Prior service cost, net of tax expense of \$212	327	--	--
Minimum pension liability adjustment, net of tax expense (benefit) of \$27,424 and (\$9,023)	--	42,731	(15,045)
Adjustment to reflect a change in accounting, net of tax expense of \$27,760	--	43,401	--
Derivative instruments:			
Net unrealized gain (loss), net of tax expense (benefit) of \$1,369, (\$111,367) and \$140,135	2,040	(173,872)	218,656
Reclassification of net realized (gains) losses to income, net of tax expense (benefit) of \$5,164, (\$1,657) and (\$37,082)	8,010	(2,562)	(57,561)
Balance at end of year	(8,744)	2,988	93,290
TOTAL COMMON STOCK EQUITY	\$ 3,351,441	\$ 3,207,473	\$ 2,985,225
COMPREHENSIVE INCOME			
Net income	\$ 283,940	\$ 269,730	\$ 170,479
Other comprehensive income (loss)	(11,732)	(133,703)	146,050
Total comprehensive income	\$ 272,208	\$ 136,027	\$ 316,529

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Financial Statements.